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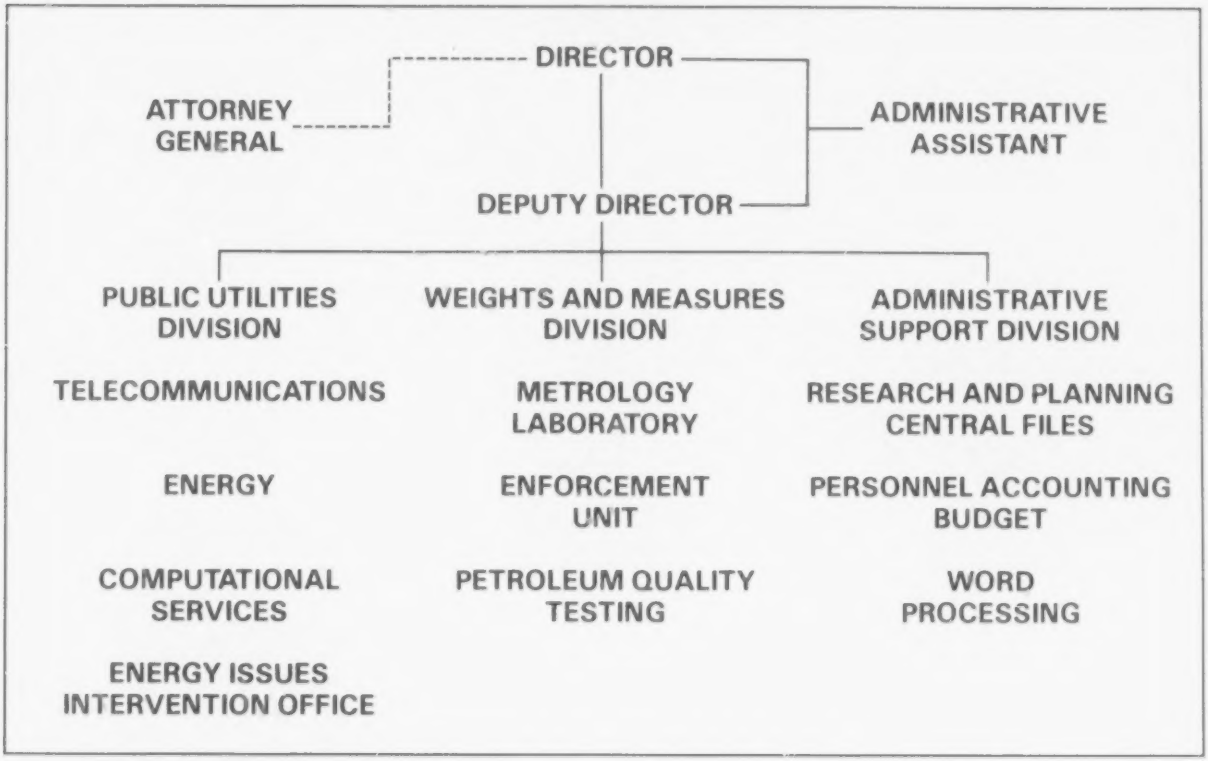
TABLE OF ORGANIZATION
STATE OF MINNESOTA
DEPARTMENT OF PUBLIC SERVICE



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STATUTES AND RULES GOVERNING REGULATION OF PUBLIC UTILITIES ..... **Inside Back Cover**

REGULATORY HISTORY

Date Effective	
March 1871	Railroad Commission established.
1879	First telephone placed in service in Minnesota.
January 1895	State Scale Department created; Railroad and Warehouse Commission created.
May 1911	Weights and Measures regulation established.
January 1, 1915	Minnesota telephone utilities placed under state regulation.
1918-1920	Federal Post Office took over war-time operations of the nation's telephone companies.
January 1919	Study reveals 2,058 telephone companies operating in Minnesota.
January 1920	Minnesota became first state to establish telephone accounting separations manual as part of regulatory requirement.
July 1921	Uniform system of accounts required for each telephone company.
January 1960	Survey shows a total of 1,076 telephone companies operating in Minnesota.
January 1, 1968	Railroad and Warehouse Commission renamed Public Service Commission; Department of Public Service established as an umbrella agency to provide administrative and enforcement services to the commission.
January 1, 1975	State regulatory authority over gas and electric utilities became effective. Public Service Commission expanded to five members.
June 3, 1977	Minnesota law established to: define conditions by which CWIP may be included in rate base, prohibit certain kinds of advertising costs as allowable expenses, restrict charitable contributions as allowable expenses, direct the Commission that utility rate base shall be determined by original cost of property.
April 8, 1978	Electric cooperatives exempted from state rate regulation.
December 4, 1978	Commission issued temporary moratorium on utility shut-offs during cold weather months.
January 5, 1979	Telephone cooperatives exempted from state rate regulation.
December 28, 1979	Commission passes final cold weather rule prohibiting utility disconnects during cold weather months.
July 1, 1980	Administrative separation of Department of Public Service and Public Utilities Commission into two separate state agencies.
May 20, 1981	Gas distribution utilities serving fewer than 650 customers exempted from state rate regulation.
May 22, 1981	Telephone companies serving fewer than 2,500 subscribers exempted from state rate regulation.
May 1, 1982	Minnesota Statutes amended to eliminate rates under bond and provide for interim rates and a 10-month time limit set on final rate case decisions by the Public Utilities Commission.
July 1, 1983	Minnesota law established Energy Issues Intervention Office (EIIO).
July 1, 1983	The function of issuing certificates of need for large energy facilities transferred from Department of Energy, Planning and Development to the PUC.
July 1, 1983	The Commission may order utilities to pay compensation to intervenors, not to exceed $20,000 per intervenor.
April 24, 1984	Telephone companies serving fewer than 15,000 subscribers exempted from state rate regulation.
June 29, 1985	Cellular mobile radio carriers exempted from state regulation.
August 1, 1985	General Telephone Company exempted from rate regulation when the language of the statutes was changed to include foreign corporations.

ABOUT THE DEPARTMENT

The Minnesota Department of Public Service is a regulatory agency with statutory responsibilities relating to telephone, gas and electric utilities and weights and measures in Minnesota. An arm of the state's Executive branch, the Department acts as public advocate for the state in the regulation of public utilities. The Department is responsible for investigating the reasonableness of rates charged by utilities and also has authority to assure compliance with and enforcement of all orders of the Minnesota Public Utilities Commission. In addition, it is the investigative and enforcement agency for all state weights and measures statutes.

In the utility sphere, the Department's regulatory responsibilities include investigating utility revenues and rate matters, monitoring rate adjustment clauses, investigating utility acquisitions and reviewing proposed issuances of securities by regulated utilities. The Department also undertakes special investigations and studies relating to utility rates, service and public issues. The Energy Issues Intervention Office within the Department argues on behalf of Minnesota consumers before the Federal Energy Regulation Commission, to keep wholesale energy rates paid by Minnesotans reasonable.

In contested cases, the Department serves as public advocate for all Minnesota ratepayers, identifying issues and presenting various alternatives on financial, rate and service matters. The Department's recommendations are presented in sworn testimony to the state's Public Utilities Commission, the body appointed by the Governor which sets general regulatory policy and utility rates throughout Minnesota. The Department's recommendations reflect positions which, in its opinion, are in the best interest of the state's general public.

The Department's Weights and Measures division is responsible for examining and evaluating all weighing and measuring devices in commercial service in the state to protect Minnesota citizens from false weighing or measuring transactions. The division was established in 1911 as successor to the state Scale Department, one of the oldest agencies in state government, established in 1895. The Weights and Measures division is divided into two major functional units and is responsible for the accuracy verification of every weight, measure and weighing or measuring device used in the state. Its responsibility also extends to securing accurate weight, measure or count in all commercial transactions.

All together, the Department's staff includes experts in weights, measures, statistics, econometrics, economics, accounting, engineering and specialists in related utility and regulatory fields.

The Department director is appointed by the Governor. As administrative head, the director enforces orders and directives of the Public Utilities Commission and develops the Department's administrative policies and procedures.

THE RESEARCH AND INFORMATION SECTION

A conspicuous part of the Department's duties is keeping both the public and industry informed of matters under the jurisdiction of the Department and PUC. The Department's Research and Information section is the repository for all such data. Copies of all regulatory orders, utility rates, service, service areas and quality of service reports are on file and available for public review. Utility financial reports and tariff books are also on file.

Because of the great demand for regulatory orders and documents, the Department is required to assess a charge for for copies of official materials. Certified copies are priced at $2 for each document plus a flat charge of 25 cents per page for duplication. Other duplicates are priced on a variable scale set by the Documents section based on the size, number of pages and difficulty of preparation. Requests for duplicates and certified copies of regulatory documents should be made through the Research and Information section, Department of Public Service, American Center Building, St. Paul, (612) 296-7100. Copies of utility service area maps are also available on order.

UTILITIES REGULATION

PROTECTING THE PUBLIC INTEREST EVERY DAY IN MANY WAYS

The role of the Department of Public Service is to protect the customers of regulated utilities from unfair rates or treatment that may result from the monopoly environment in which public utilities operate. Therefore, whenever a regulated gas, electric or telephone utility applies for a higher rate, the Department immediately steps in on behalf of the utility's customers.

Since 1975, the DPS has served as public advocate in over 160 contested utility rate matters involving nearly $1.5 billion. Backing its advocacy with facts and figures, the Department has recommended that this $1.5 billion be cut by nearly $800 million.

Using its accountants, statisticians, engineers, economists and regulatory specialists, the Department investigates each rate request to determine its validity. It then presents its recommendations to the PUC. Often the Department will place before the Commission a number of alternatives to the industry-submitted financial, rate and service plans. Throughout all ensuing proceedings before the Commission, the Department will take aggressive, public-oriented positions.

The Department also investigates and makes recommendations relating to service matters, territorial conflicts and depreciation certification.

Day-to-Day Protections Are Important

Besides these major activities, there are other duties the Department performs which provide additional day-to-day protection for utility ratepayers. These include:

- Maintaining utility rate and tariff books.
- Monitoring the quality and adequacy of utility services.
- Monitoring utility accounting procedures and systems.
- Analyzing all securities issued by utilities.
- Monitoring the financial stability of utilities.
- Investigating utility compliance with filed tariffs.
- Enforcing statutes, regulatory rules and policies.
- Promoting economically efficient and energy efficient rate designs.
- Investigating the economic impact of changes in utility service area boundaries.
- Intervening in federal regulatory proceedings that affect Minnesota utilities ratepayers.
- Investigating utility investments and expenses for ratemaking purposes.
- Evaluating utility depreciation rates and schedules.
- Reviewing utility statistical reports and documents.
- Supervising and conducting elections on rate regulation as requested by members of electric or telephone cooperatives.

Alternative Energy Regulation

Another area to which the Department has given priority, is the development of alternative energy. Because of rising energy costs in 1978, the U.S. Congress launched an effort to encourage the generation of electricity from cogeneration and from small scale power plants using renewable energy sources. It did this with the passage of the Public Utilities Regulatory Policy Act. In 1981, Minnesota affirmed that policy at the state level with the passage of similar legislation. Collectively, these laws require electric utilities to interconnect with and purchase power and energy from all

qualifying cogenerators and small power producers (called "Qualifying Facilities") in their service areas. "QF" status is given to power producers once they meet requirements set by the Federal Energy Regulatory Commission. It is the Public Service Department's job to develop and enforce the rules which govern the utilities' purchase of QF power. The Department makes sure that payments are based on accurate assessment of a utility's "avoided cost" — the cost the utility would otherwise incur if the power and energy provided by the QF were not available. Utilities purchasing power from QFs generating under 100kw file avoided costs information with the Department annually. Larger QFs negotiate rates with the utilities themselves

Telecommunications: The Chalienge of A Fast Changing Industry

The first telephone was placed in service in Minnesota in 1879. By the turn of the century, Minnesotans were served by more than 1,000 telephone companies operating in the state.

A significant number of the companies were one-family operations or local cooperatives serving fewer than 25 subscribers. Many did not provide exchange service, but rented switching facilities from another company in order to connect with the telephone network. The extent of calling was usually limited to subscribers of the serving company, and customers often provided their own maintenance of lines and telephones.

Telephone service in those early years meant sharing the line with up to 20 or more subscribers. Placing a call often entailed a long wait for an operator's response and considerable line noise and cross talk.

The era of unregulated competition in Minnesota's telephone industry ended with enactment of Chapter 152, Laws of 1915, which ordered state jurisdiction over a maze of overlapping, duplicating telephone services that featured several telephone companies serving the same town, including the Twin Cities and Duluth.

When the federal Post Office Department took over war-time operations of the nation's telephone companies in 1918 and 1919, Minnesota listed 2,058 operating telephone companies. In 1920, when regulatory jurisdiction was returned to Minnesota's Board of Railroad and Warehouse Commissioners, a concentrated effort was made to consolidate telephone companies and bring uniformity to telephone rates and services

Most duplicating services were eliminated with assignment of an exclusive service area to each telephone company. But consolidation efforts were less successful. Commission statistics, as late as 1960, still listed 1,076 telephone companies operating in the state.

All Minnesota's telephone companies operated in a totally regulated environment until 1979 when the level of regulation was reduced for 24 telephone cooperatives. These companies were no longer required to seek advance approval of the Commission before changing rates, but remained subject to the other requirements of regulation. In 1981, regulation was reduced for an additional 56 small telephone companies serving fewer than 2,500 subscribers. Rates of small companies remained subject to review and change by the Commission if they were found to be unreasonable. The exemption was extended to an additional 18 companies serving fewer than 15,000 subscribers in 1984. By 1985 only five companies remained under full state rate regulation. These five, however, serve 89 percent of Minnesota's telephone subscribers.

Technological changes have advanced telephone service from battery operated telephones, manual switchboards and mechanical switches to digital central offices with instantaneous push-button calling allowing access to nearly any spot in the world via fiber optics cable, microwave or satellite.

Decisions of the courts, particularly the court-ordered break-up of AT&T and the Bell system in 1984, and directives by the Federal Communications Commission, have injected new competition into telecommunications, especially in the sale of equipment and long distance services. While the number of telephone companies offering local exchange service has actually declined slightly because of mergers and buy-outs, a new era of unregulated competition has increased the number of companies offering long distance and ancillary telephone services in the state. The Commission has now authorized numerous companies to provide both inter and intraLATA long distance services within the state. The resale of regulated services has also been authorized which has significantly increased the range of customer choices. In addition, Minnesota was the first state to authorize customer-owned public coin telephones to be connected to the telephone network.

These changes in the structure of the telecommunications industry in Minnesota and the expected further expansion of competition into new areas of communications services will also bring changes to the regulatory process.

Cooperative Elections Assistance

An important function of the utilities unit is supervising and conducting elections for members of electric cooperatives deciding whether or not to be regulated by the state. When Minnesota's electric cooperatives were exempted from state rate regulation in 1978, the legislature gave coop members the option of voluntarily coming under state regulation by providing a balloting procedure whereby members could vote on whether or not their rates and services should be regulated by the Public Utilities Commission. The collected signatures of 5 percent of the coop members is a required first step to balloting the total membership, and an affirmative majority of those voting is necessary to bring the cooperative under state rate regulation.

Since 1980, the DPS has conducted six coop rate regulations elections. Five voted on whether to become regulated, one voted on whether to deregulate. Results of those elections are shown in the table below:

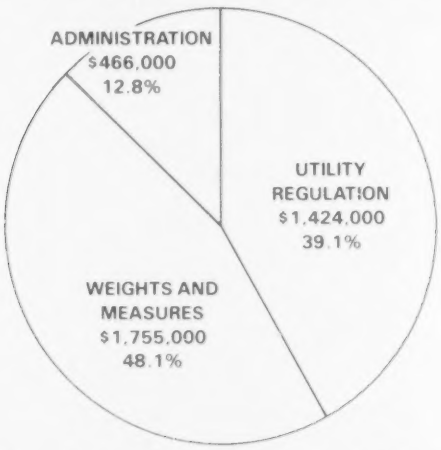
COOPERATIVE ELECTIONS 1980-1986

Name of Cooperative	Ballots Mailed	Ballots Returned	Yes Votes	No Votes	Spoiled Ballots
Dakota Electric Assoc. Farmington, Minnesota	28,856	14,545	8,620	5,913	12
Northern Electric Virginia, Minnesota	12,986	7,146	3,246	3,896	4
Frost-Benco Electric Mankato, Minnesota	7,075	4,088	2,751	1,327	10
Carlton Co-op. Power Kettle River, Minnesota	8,626	5,067	2,515	2,537	15
North Pine Electric Finlayson, Minnesota	6,918	4,416	1,615	2,793	8
Frost-Benco (Voting to deregulate)	7,425	4,093	2,139	1,953	1

STATISTICAL DATA

THE DPS OPERATING BUDGET

Where The Money Comes From, Where It Goes



DEPARTMENT OPERATING COSTS BY PROGRAM

PROGRAM	FY 1985	FY 1986
Utility Regulation:		
General Fund	$1,409,000	$1,504,000
Revolving Fund	15,000	7,000
Weights and Measures:		
General Fund	$1,755,000	$1,668,000
Administration:		
General Fund	$ 466,000	$ 509,000
TOTAL	$3,645,000	$3,688,000

TELEPHONE CUSTOMER DISTRIBUTION

	Minnesota Customer Served	Minnesota Operating Revenue	Percent of Telephone Revenue	Plant In Service
Central	61,774	34,011,534	2.8	95,122,368
Continental	88,242	59,353,620	4.9	175,374,500
Mankato	23,457	14,754,769	1.2	31,758,946
Northwestern Bell	1,460,953	945,033,641	78.1	2,446,833,675
United	86,858	50,232,633	4.2	127,297,963
Subtotal	1,721,284	1,103,386,197	91.2	2,876,387,452
95 Other Local Exchange Carriers	215,918	106,819,587	8.8	363,365,588
Total	**1,937,202**	**1,210,205,784**	**100.0**	**3,239,753,040**

MINNESOTA'S REGULATED TELEPHONE UTILITIES

Composite Statistic* — 5 Regulated Companies

	AMOUNTS
Plant (Intrastate Only)	
Plant In Service	2,876,387,452
Construction Work In Progress	77,745,010
Plant Acquisition Adjustment	16,860
Plant Held for Future Use	33,610
Materials and Supplies	27,284,691
Gross Plant Investment (Subtotal)	2,981,467,623
Less:	
Depreciation and Amortization Reserves	836,165,922
Contributions in Aid of Construction	
Net Book Costs	2,145,301,701
Revenues and Expenses	
Operating Revenues	1,103,386,197
Depreciation and Amortization Expenses	190,133,643
Income Taxes	123,499,544
Other Taxes	89,418,229
Other Operating Expenses	497,657,586
Total Operating Expenses	**900,709,002**
Net Operating Income	202,677,195
Other Income	9,608,478
Other Deductions	5,685,658
Net Income	206,600,015
Customers (Numerical Average, Not Dollars)	
Residential — Yearly Average	1,508,742
Business — Yearly Average	178,281
Others — Yearly Average	34,261
Total Yearly Average	**1,721,284**
Lines in Service (Including Equivalent)	
Residential Lines	1,372,616
Business Lines	518,622
Total Lines	1,891,238
Total Number of Phone Calls Per Year	
Local	5,502,186,984
Intrastate Toll	174,592,135
Interstate Toll	22,584,931
Other Statistics	
Total of All Residential Monthly Bills This Year	294,629,727
Gross Plant Investment Per Customer	7,172

*December 1985 year end, Minnesota jurisdictional only.
**Company specific information is available upon request.

ALL OTHER MINNESOTA TELEPHONE UTILITIES

	AMOUNTS
Plant (Intrastate Only)	
Plant in Service	363,365,588
Construction Work in Progress	10,107,692
Plant Acquisition Adjustment	624,540
Plant Held for Future Use	597,398
Materials and Supplies	3,190,500
Gross Plant Investment (Subtotal)	374,331,160
Less:	
Depreciation and Amortization Reserves	152,390,899
Contributions in Aid of Construction	
Net Book Costs	221,946,063
Revenues and Expenses	
Operating Revenues	106,819,587
Depreciation and Amortization Expenses	22,390,291
Income Taxes	8,763,173
Other Taxes	6,111,739
Other Operating Expenses	45,411,942
Total Operating Expenses	**83,173,384**
Net Operating Income	22,883,015
Other Income	5,572,652
Other Deductions	8,517,399
Net Income	19,211,809
Customers (Numerical Average, Not Dollars)	
Residential — Yearly Average	179,237
Business — Yearly Average	25,054
Others — Yearly Average	2,584
Total Yearly Average	**216,249**
Lines in Service (Including Equivalent)	
Residential Lines	185,990
Business Lines	29,724
Total Lines	215,523
Total Number of Phone Calls Per Year	
Local	170,584,355
Intrastate Toll	28,561,004
Interstate Toll	9,233,027
Other Statistics	
Total of All Residential Monthly Bills This Year	19,122,279
Gross Plant Investment Per Customer	142,159

*December 1985 year end, Minnesota jurisdictional only.
**Company specific data available upon request.

NATURAL GAS

Minnesota's nine investor-owned regulated natural gas distribution utilities serve more than 850,000 customers.

Minnegasco is the state's largest gas utility serving over 432,000 customers in 162 Minnesota communities. Northern States Power, the second largest distributor, provides natural gas to over 238,000 customers. Revenues collected by NSP and Minnegasco represent more than 74 percent of the total revenue of all regulated gas utilities in Minnesota.

MINNESOTA'S REGULATED NATURAL GAS UTILITIES
COMPANY STATISTICS

Name of Utility	Minnesota Customers Served	Minnesota Operating Revenues	Percent of Natural Gas Revenues	Plant In Service
Great Plains Natural Gas	13,962	20,671,000	1.7	13,099,000
Inter-City Gas Corporation	20,449	45,297,000	3.7	20,974,000
Interstate Power	8,874	10,896,000	0.9	4,648,000
Iowa Electric Light	4,460	5,189,000	0.4	2,031,000
Minnegasco, Inc.	432,318	603,246,000	49.6	360,693,000
North Central Public Service	48,995	48,353,000	4.0	32,572,000
Northern States Power	238,093	314,025,000	25.8	251,538,000
Peoples Natural Gas	86,689	168,165,000	13.8	59,090,000
Western Gas Utilities	1,718	1,587,000	0.1	1,046,000
Total	**855,558**	**1,217,429,000**	**100.0**	**745,691,000**

*December 1985 year end, Minnesota jurisdiction.

MINNESOTA'S REGULATED NATURAL GAS UTILITIES

Composite Statistics — 9 Companies

	TOTAL
Total Plant	
Plant in Service	745,691,000
Construction Work in Progress	4,057,000
Plant Acquisition Adjustment	2,507,000
Plant Held for Future Use	268,000
Materials and Supplies	26,314,000
Less:	
Depreciation and Amortization Reserves	271,980,000
Contributions in Aid of Construction	24,000
Net Book Costs	506,833,000
Revenues and Expenses	
Operating Revenues	1,217,429,000
Depreciation and Amortization Expenses	27,084,000
Income Taxes	36,172,000
Other Taxes	39,758,000
Other Operating Expenses	1,049,800,000
Total Operating Expenses	**1,163,113,000**
Net Operating Income	54,317,000
Other Income	895,000
Other Deductions	2,965,000
Net Income	**49,706,000**
Customers (Numerical Average, Not Dollars)	
Residential — Yearly Average	775,139
Commercial — Yearly Average	75,855
Industrial — Yearly Average	1,543
Others — Yearly Average	3,021
Total	**855,558**
Other Statistics	
Average Annual Residential Use — MCF	123.7
Average Residential Cost per MCF ($)	5.78
Average Residential Monthly Bill (incl. heating cust.)	59.33
Gross Plant Investment per Customer ($)	749.11

*December 1985 year end — Minnesota jurisdiction only.

**Company specific information available upon request.

ELECTRICITY

Minnesotan's are provided electric service by 186 electric utilities, including 53 distribution cooperatives, 128 municipal utilities and 5 investor-owned utilities.

The five investor-owned and one electric cooperative are under state rate regulation.

Northern States Power is the largest electric utility in Minnesota, serving nearly 900,000 customers. Minnesota Power ranks second with nearly 103,000 customers. Revenues of Northern States Power Company and Minnesota Power Company make up 90 percent of the total revenue of all regulated electric utilities in Minnesota.

Electricity in Minnesota is generated with coal, nuclear material, oil, gas and hydropower. Coal is the predominant fuel used for generation, with uranium ranking second.

MINNESOTA'S REGULATED ELECTRIC UTILITIES
COMPANY STATISTICS

Name of Utility	Minnesota Customers Served	Minnesota Operating Revenues	Percent of Electric Revenues	Utility Plant In Service
Bigfork Valley Electric	251	359,000	0.02	213,000
Dakota Electric Association	39,322	44,791,000	2.76	61,385,000
Interstate Power	37,975	36,418,000	2.24	108,964,000
Minnesota Power	102,661	328,192,000	20.19	932,834,000
Northern States Power	897,819	1,135,527,735	69.86	3,120,502,000
Otter Tail Company	54,256	80,255,000	4.93	258,482,000
Total	**1,132,284**	**1,625,546,735**	**100.00**	**4,482,380,000**

December 1985 year end — Minnesota jurisdiction only.

MINNESOTA'S REGULATED ELECTRIC UTILITIES

Composite Statistics — 6 Companies

	TOTAL
Total Plant	
Plant in Service	4,482,380,000
Construction Work in Progress	473,965,000
Plant Acquisition Adjustment	417,000
Plant Held for Future Use	6,822,000
Materials and Supplies	134,169,000
Less:	
Depreciation and Amortization Reserves	1,520,053,000
Contributions in Aid of Construction	0
Net Book Costs	3,577,699,000
Revenues and Expenses	
Operating Revenues	1,625,546,735
Depreciation and Amortization Expenses	145,699,000
Income Taxes	112,678,000
Other Taxes	166,657,000
Other Operating Expenses	947,709,000
Total Operating Expenses	**1,372,743,000**
Net Operating Income	252,800,000
Other Income	36,740,000
Other Deductions	38,160,000
Net Income	**251,355,000**
Customers (Numerical Average, Not Dollars)	
Residential — Yearly Average	1,002,282
Commercial — Yearly Average	118,995
Industrial — Yearly Average	5,526
Others — Yearly Average	5,481
Total	**1,114,284**
Other Statistics	
Average Annual Residential Use — KWH	8,200
Average Residential Cost per KWH (¢)	6.73
Average Residential Monthly Bill (incl. heating cust.)	45.87
Gross Plant Investment per Customer ($)	3,786.36

*December 1985 year end — Minnesota jurisdiction only.

**Company specific information available upon request.

REGULATORY ISSUES

Deregulation: A Challenge for the DPS

The push continues for deregulation in many service areas. One which has generated much news and controversy is that of telecommunications. During the next few years, the public debate will intensify over what to regulate generally and in particular, how to regulate the services of companies offering both competitive and non-competitive telephone services. As a principal adviser to those who will be making those regulatory decisions, the DPS will have to be vigilant in assuring the public's protection. Major issues will include maintaining universal telephone service, avoiding cross-subsidies between competitive and noncompetitive services and assuring access to the new array of telecommunications services.

Natural Gas Transport and Ensuring Fairness

Because of significant changes in federal regulation of the natural gas industry, the Minnesota Department of Public Service has been developing new policies for regulating Minnesota's natural gas utilities.

The most important federal regulatory change is contained in the Federal Energy Regulatory Commission's (FERC) Order No. 436. This Order allows natural gas pipelines to become transporters of natural gas if they agree to provide transportation services on a nondiscriminatory basis. Northern Natural Gas Company, the major pipeline serving Minnesota, has an open transportation proposal pending before the FERC and has begun transporting gas on an interim basis.

As a result of open access to pipeline transportation services, Minnesota local distribution companies (LDCs) and their customers, especially large industrial customers, will no longer be restricted to purchasing gas from the pipeline. Instead, both if they wish will be able to contract for gas at the wellhead and transport it to their Minnesota facilities. These new supply opportunities will introduce new competitive pressure to the natural gas industry which should lower gas prices to all consumers.

To ensure that competition occurs in Minnesota, the Department of Public Service has recommended that all Minnesota LDCs should offer nondiscriminatory transportation services to their customers. In this way, individual customers with the necessary resources will have the option of seeking lower cost gas from alternative suppliers. Several Minnesota gas utilities have filed for rates to provide transportation services. The DPS is investigating these filings to ensure that the proposed rates are fair and reasonable. Final rates are subject to approval by the Minnesota Public Utilities Commission.

Energy Conservation A High Department Priority

Because of long-term high costs, the legislature has ordered utilities to take energy conservation into consideration in both planning and supplying natural gas and electricity. By law (Minn. Stat. 216B.16, 241), every public utility filing for a rate change must include with that filing an energy conservation plan. The plans, which the Department reviews, must outline the utilities' current conservation efforts, must explain how conservation is integrated into the utilities' overall goals, and must explain how the utilities monitor current programs and develop new ones. The Department then makes recommendations to the Public Utilities Commission which then decides whether to approve the plans.

Further, any public utility with operating revenues over $50 million is required to operate one or more programs which make significant investments in and expenditures for energy conservation improvements. Over the course of this last year (1986), 35 projects have been approved with total anticipated expenditures of over $7.5 million coming from the five participating utilities.

Access Charges: Finding An Equitable System

The line connecting a home or business to the nearest telephone central office (i.e., switch) provides the customer with access to a worldwide telecommunications network. The local telephone company completes long distance calls to a "point of presence." At that point the call becomes the responsibility of the long distance company who charges the customer for completion of the toll call. The local companies involved collect an "access charge" from the long distance company to cover the costs of their role in completing the call.

Since the breakup of AT&T in 1984, the Public Utilities Commission, with the help of the Department of Public Service, has been working on developing an equitable statewide system of access charges. The DPS is currently assisting the PUC in setting up access charges for Minnesota's larger telephone companies. The Department and the PUC are also in the process of reviewing the entire access charge system within all of Minnesota's local access and transport areas.

The Bypass Dilemma — How To Assure Universal Phone Service Without Threatening Competition

According to many experts, long distance charges have subsidized local rates, keeping them low and making telephone service affordable for nearly everyone. With the breakup of AT&T, the Federal Communications Commission has shifted costs from long distance rates to the local monthly rate. The more these higher charges are passed on to local telephone customers, the greater becomes the threat to the goal of universal telephone service (a phone in every home). On the other hand, without some shift of costs to local service, big businesses will find less expensive communications service by bypassing the public switched network.

More and more of these frequent long distance callers are dropping off local networks to pick up cheaper alternatives — companies offering special access, cable or satellite service and the like. Loss of enough of these big toll-users would be a severe blow to telephone companies which may, someday, have only small businesses and residential customers to support them.

To find solutions that are fair and equitable to all, that protect consumers big and small, and that do not stifle competition is going to be one of the greatest challenges for the PUC and Public Service Department in the coming months.

ENERGY ISSUES
INTERVENTION OFFICE

BALANCING MINNESOTA'S INTERESTS WITH U.S. FEDERAL ENERGY POLICY

The Energy Issues Intervention Office (EIIO) was established by the Minnesota Legislature in 1983. It serves as an advocate for Minnesota's interests before federal energy policy-making agencies. The EIIO investigates Minnesota-related energy rate cases before the Federal Energy Regulatory Commission (FERC), the federal agency responsible for overseeing interstate energy areas. The EIIO petitions the FERC on behalf of Minnesota's energy-related agencies. It presents testimony before the FERC and coordinates state agency strategy in matters pertaining to state energy issues which come before the Congress and the FERC. The first priority of the EIIO has been to address natural gas issues before Congress and the FERC.

From January 1985 to December 1986, the EIIO actively participated in 66 new proceedings pertaining to utility rate and policy matters before FERC and various courts. These proceedings, in conjunction with previous unsettled interventions, covered a diverse range of issues in the natural gas industry. When possible, the EIIO coordinated these interventions with other state agencies, local utilities, and consumer groups. Major concerns, time and energy were expended on the following activities and cases.

- **Gas overcharges:** This case was argued before the FERC. The Minnesota agencies had accused Northern Natural Gas of overcharging its customers through imprudent, fraudulent and abusive methods of purchasing gas in the early 1980s. The EIIO participated in all facets of the ensuing negotiations and settlement.
- **Investigation of rate requests:** The EIIO examined all rate filings requested by Northern Natural Gas to assure nondiscriminating, just and reasonable rates.
- **Investigation of relationships among affiliated natural gas companies:** The EIIO examined all filings by Northern Natural Gas for inappropriate transactions between Northern Natural and affiliated entities. To facilitate the development of a general policy to monitor and control affiliated entities, the EIIO also petitioned the FERC to issue rulemaking in this area.
- **Negotiation of pipeline terms:** This matter stemmed from FERC Order 436 which was designed to promote competition in the natural gas industry by opening up transportation on all pipelines choosing to participate in this program. Because Northern Natural Gas agreed to be an "open-access" transporter, the EIIO petitioned the FERC on the matter and was an active participant in negotiating the terms, conditions and transportation rates in an agreement eventually accepted by Northern.
- **Coordination of opposition to the deregulation of "old" gas:** When the FERC proposed a rulemaking to deregulate the price of "old" gas, the EIIO actively opposed this rulemaking proposal because of the potential for higher gas costs to Minnesota customers.

These major concerns, as well as other rate proceedings, hydropower licensing, electric rate issues, transportation requests, gas adjustment clauses and rulemakings have resulted in an extensive, complex workload for the EIIO.

WEIGHTS AND MEASURES

THE WEIGHTS AND MEASURES DIVISION:
A Vital Cog Among the Wheels of Minnesota's Commerce

The Weights and Measures division of the Minnesota Department of Public Service is responsible for the accuracy of all transactions involving weight or measure. Consumers are apt to think that their pocketbooks are affected by weight and measure-related purchases only at the grocery store and gas station. In fact, such transactions are only a fraction of the purchases we make which are influenced by weighing and measuring devices. Indeed, the retail value of just about any consumer commodity you can imagine has probably been determined by a number of weighing and measuring transactions that item will have undergone during its trip from producer to distributor to wholesaler to retailer to you. An error in any of the weighing devices used along the way will necessarily affect such an item's ultimate price. And, if enough of those items are sold, that error could conceivably affect the economy itself. So it is imperative that the devices we use to calculate pounds, gallons, volume, inches, feet or whatever, be accurate and true — that we know that a pound is, indeed, a pound.

The heart of the Weights and Measures division is its metrology laboratory. It is the statewide reference point for national uniformity in the measurement of mass, volume and length. The laboratory is certified by the Natural Bureau of Standards, which means that Minnesota standards are maintained and cross-checked and that the metrologist reports regularly to the National Bureau. Any weight or measure calibrated in the Department's lab is directly traceable to the United States standards.

These standards are used as the reference point from which approximately 10,000 other weights and measures are calibrated each year. These other weights and measures are, in turn, used in: pharmacies to determine accurate quantities for prescriptions; in scientific and engineering laboratories to make precise measurements for education, industry and defense; in grain grading laboratories to determine the quality of Minnesota's farm produce; in field installation, maintenance and testing of commercial weighing and measuring equipment used in grocery stores, gasoline stations, grain elevators and nearly all other types of businesses.

The laboratory calibrates all field standards for state weights and measures investigators, 350 registered repair services, various law enforcement agencies, and local units of government. Several hundred commercial and industrial operations also submit standards to the laboratory.

If the metrology lab is the heart of the Weights and Measures division, the enforcement unit is its eyes and ears. The unit is involved in a wide range of inspection, testing and enforcement activities. The 30 investigators assigned to the unit are responsible for the accuracy of every commercial weighing and measuring device in the state.

In the performance of these responsibilities the unit generates a substantial number of tests per year (see chart). An emphasis on routine, unannounced inspections has spurred owner-operators to adopt improved maintenance procedures which has, in turn, resulted in a dramatic increase in the proportion of devices found in compliance.

Two of the unit's most important activities are the accuracy verification and complaint investigation programs which allow investigators to check actual everyday use of devices. An accurate device is meaningless if it is not used accurately by its operator. These programs help control weighing errors by investigating consumer complaints and by checking prepackaged and measured commodities to determine package accuracy.

In order to test devices ranging from prescription balances to gas pumps to railroad track scales, the enforcement unit employs a wide variety of expensive, complicated and heavy test equipment. Field test measures range from a fraction of a pint to 500 gallons. Test weights range from 1/1000 lb. through 30 lbs. test sets for grocery scales, up to 1,000 and 10,000 lb. weights and 100,000 lb. test cars for truck and railroad scales. The test equipment is the only official means of regulating commercial weighing and measuring devices in the state.

State statutes provide these men and women with special police powers. They have the authority to enter any premises for the purpose of inspecting and testing weighing and measuring devices and weighted or measured commodities. This authority allows them to reject and prohibit commercial use of any device that is not in compliance with the technical and accuracy requirements prescribed by Department rules.

The enforcement unit also tests gasoline, fuel oil and kerosene to determine whether these products meet Minnesota standards for quality and purity. The program assures consumers of high quality petroleum products.

The enforcement supervisor operates a program of voluntary registration for those who repair weighing and measuring devices. Registrants are permitted to place new and repaired equipment into commercial service. Their work is also monitored by the enforcement investigators.

WEIGHTS AND MEASURES
INVESTIGATION/ENFORCEMENT ACTIVITY

JULY 1985 THROUGH JUNE 1986

DEVICES TESTED

	Number Total	Number Correct	Adjusted or Rejected Number	Adjusted or Rejected Percent
Heavy Capacity Scales***	3,021	2,437	584	19.3
Livestock Scales	273	236	37	13.6
R.R. Track Scales	97	78	19	19.6
Grain Hopper Scales	244	228	16	6.6
Law Enforcement Scales	246	216	30	12.2
Light Capacity Scales	11,633	10,918	715	6.1
Gasoline Pumps	25,208	23,186	2,022	8.0
Petroleum Meters	3,616	2,800	536	14.8*
			280	7.7**
LPG Meters	1,366	607	705	51.6*
			54	3.9**
Agricultural Chemical Meters	109	55	58	53.2*
			4	3.6**
Petroleum Product Tests	27,796	27,308	488	1.8

CHECKWEIGHING

Packages Weighed	86,540	73,555	12,985	15.0

LABORATORY CALIBRATIONS

Weights	6,390
R.R. Test Cars	10
Liquid Measures	243
Prescription Balances	40
Other Precision Balances	25

COMPLAINT INVESTIGATIONS

Complaints Investigated	700

*Adjusted
**Rejected
***Over 4,000 lbs. capacity

Minnesota Statutes and Rules Relating to Regulation

Regulation of gas, electric and telephone utilities providing service in Minnesota and all Weights and Measures regulation in the state are carried out in accordance with laws enacted by the Minnesota Legislature and rules adopted by the Minnesota Public Utilities Commission, the Department of Public Service and the Office of Administrative Hearings.

— STATUTES —

Department of Public Service
Chapter 216A
Regulation of gas/electric utilities
Chapter 216B
Regulation of telephone utilities
Chapter 237
Weights and Measures
Chapter 239

— RULES —

Weights and Measures
Chapter 7600 (7600.0100-7600.9600)
Telephone Utilities
Chapter 7810 (7810.0100-7810.8000)
Gas and Electric Utilities
Customer Service Rules
Chapter 7820 (7820.0200-7820.4900)
Regulatory Requirements
Chapter 7825 (7825.0200-7825.5700)
Rule Hearings
Contested Case Procedures
9MCAR § 2.101-2.222

Copies of rules and statutes are available for review in the Department of Public Service Research/Information Center and may be purchased from the State Register and Public Documents Division, 117 University Avenue, St. Paul, 55155.

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*Evidentiary and public hearings on utility rate matters are conducted under rules of the Office of Administrative Hearings.